

PHILIPPINES ECONOMIC WRAP-UP

JUNE 23-29, 2001

Summary

This week the peso depreciated further, stock prices continued to soften, and rates on all T-bill maturities inched up. We also report on the latest competitiveness rankings by the Swiss-based International Institute for Management Development, which showed the Philippines trailing neighboring economies. We also note that the threat of stricter countermeasures from Financial Action Task Force (FATF) member countries has created quite a stir -- hopefully enough to galvanize action on legislative reforms to combat money laundering. Meanwhile, the latest government survey of selected industries (April) showed overall production volume up 12.7% year-on-year -- which analysts, however, generally attributed to low inventories rather than improved business prospects. End summary.

These weekly reviews are available on the Embassy's web site (<http://usembassy.state.gov/manila>). We provide a longer and more detailed review of the Philippine economy in our June 2001 Economic Outlook, which is also available on our web site.

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FOREX REPORT

End-of-quarter corporate demand, expectations of weaker regional currencies (driven mainly by downward pressure on the yen), and lingering political anxieties (the Abu Sayyaf hostage drama and the trial of former President Estrada on perjury, plunder, and other charges) combined with tightening foreign exchange liquidity for a weaker peso. The peso ended the week at 52.395 on June 29 (down 0.4% from June 22's P52.210 close).

Exchange Rate Tables

Date	Weighted Average (Pesos/US\$)	Closing (Pesos/US\$)	Volume (Million US\$)
	-----	-----	-----
MAY 21	50.609	50.840	148.3
22	50.789	50.645	124.2
23	50.438	50.300	184.0
24	50.287	50.340	168.0
25	50.449	50.505	106.5
MAY 28	50.774	50.770	160.5
29	50.703	50.500	120.4
30	50.584	50.565	177.5
31	50.495	50.500	162.6
JUN 01	50.750	50.633	150.0
JUN 04	50.800	50.765	103.5
05	50.645	50.590	121.7
06	50.643	50.720	143.0
07	50.762	50.710	85.2
08	50.803	50.910	128.1
JUN 11	51.079	51.190	181.0
12	Markets Closed		
13	51.326	51.310	191.0
14	51.309	51.360	105.6
15	51.479	51.590	122.4
JUN 18	51.819	51.975	141.5
19	52.282	52.320	109.5
20	52.071	52.010	233.8
21	52.101	52.200	122.5
22	52.281	52.210	74.5

JUN 25	52.252	52.265	54.9
26	52.307	52.270	91.5
27	52.308	52.295	55.3
28	52.366	52.370	101.5
29	52.428	52.395	96.0

Source: Bankers Association of the Philippines

CREDIT MARKET REPORT

Banks and securities dealers bid up rates for all maturities at the Bureau of Treasury's weekly T-bill auction on June 25. The Treasury fully awarded the P1 billion of 91-day bills on offer at an average rate of 8.728%, 7.5 basis points higher week-on-week (breaking from six consecutive weeks of declines). The market did not have much appetite for the P1.5 billion each of 182-day and 364-day bills on offer. The government accepted only P625 million of the less than P1.5 billion tendered for the 364-day paper at an average rate of 11.092% (up 12.7 basis points). It rejected all bids for the 182-day paper. Traders attributed the higher bid rates to uncertainties over a weakening peso, lingering political anxieties, and nagging fiscal concerns. Pronouncements from officials at the Bangko Sentral ng Pilipinas (BSP, the central bank) that the monetary authority was inclined to keep policy rates steady despite an expected reduction in U.S. rates later in the week also contributed to the higher bids. Analysts expect rates to move sideways in the near-term, with a stronger upward bias depending on exchange rate movements and political developments. As they did this week, Treasury officials said that they would continue to reject "unreasonable" bids.

The Philippine Monetary Board (the Bangko Sentral's highest policy making body) did decide to maintain overnight rates at current levels (9% borrowing, 11.25% lending) despite a 25 basis-point reduction in U.S. rates this week. In a statement released before the weekend, the BSP cited emerging risks on the inflation outlook -- referring to upward pressure on oil prices and increased signs of volatility in the foreign exchange market. BSP

officials also noted that loan growth has remained modest despite successive reductions in overnight rates.

Domestic Interest Rates (in percent)

Treasury Bills

Auction Date	91 days	182 days	364 days
-----	-----	-----	-----
MAY 15	9.513	10.915	11.350
MAY 21	9.306	10.750	11.352
MAY 28	9.037	10.087	11.307
JUN 04	8.913	9.839	10.792
JUN 11	8.729	9.700	10.823
JUN 18	8.653	9.780	10.965
JUN 25	8.728	no sales	11.092

Source: Bureau of the Treasury

Prime Lending Rates of 14 Expanded Commercial Banks

Date of Survey	Average	Range
-----	-----	-----
MAY 17	13.2171	10.75 - 14.513
MAY 24	13.1013	10.75 - 14.500
MAY 31	12.8919	10.25 - 14.037
JUN 07	12.7849	10.00 - 14.000
JUN 14	12.8122	10.00 - 14.000
JUN 21	12.7828	10.00 - 14.000
JUN 28	12.6328	10.00 - 13.728

Sources: Bangko Sentral ng Pilipinas; Press reports

STOCK MARKET REPORT

Weak economic prospects, foreign exchange uncertainties, and political jitters continued to cloud investor sentiment in the equities market. Upward pressure on domestic interest rates further dampened a market already struggling from a dearth of positive, market-spurring news. The Philippine Stock Price Index (Phisix) ended

June 29 at 1410.07, declining 2.1% from June 22's 1439.77 closing level.

Philippine Stock Exchange Index (PHISIX) and
Value of Shares Traded

Date	PHISIX Close	Value (Million pesos)
----	-----	-----
MAY 21	1446.20	363
22	1451.20	6939 /a
23	1446.20	726
24	1434.68	472
25	1410.23	1068
MAY 28	1395.12	412
29	1385.43	511
30	1396.50	399
31	1402.29	568
JUN 01	1416.09	669
JUN 04	1412.45	2394 /b
05	1392.71	597
06	1389.52	490
07	1406.65	405
08	1410.50	650
JUN 11	1435.77	682
12	Markets Closed	
13	1462.66	943
14	1474.11	799
15	1479.30	749
JUN 18	1470.92	393
19	1448.73	474
20	1449.45	415
21	1444.17	547
22	1439.77	1,093
JUN 25	1424.52	1,093
26	1423.44	521
27	1415.73	479
28	1414.79	436
29	1410.07	2,972 c/

- a/ includes P6.57 billion block sale of Pure Foods to San Miguel Corporation
- b/ about P2 billion accounted for by trading of blue-chip Philippine Long Distance Telephone Co. (PLDT) shares (reportedly on news of a debt restructuring plan forged with creditors by PLDT's struggling subsidiary Piltel)
- c/ includes P2.4 billion cross transaction in relation to Globe-Islacom merger

Source: Philippine Stock Exchange

PHILIPPINE COMPETITIVENESS RANKING

According to the 2001 study by the Swiss-based International Institute of Management Development (IMD), the Philippines' overall competitiveness ranking among 49 industrialized and emerging economies slipped to 40, three notches down from the previous year. The Philippine's Asian Institute of Management-Washington Sycip Policy Center (AIM-WSycip) has collaborated with the IMD since 1996 to put out the "World Competitive Yearbook". Officials at the Policy Center said that the Philippines' overall rating slipped mainly because two European countries (Estonia and Slovak) were added to the 2001 survey list and the Czech Republic's ranking improved (from 40 to 35). The AIM-WSycip Policy Center is scheduled to officially release the details of the IMD report in a July 3 briefing.

That being said, a summary of intra-regional results showed the Philippines (40) at the second worst ranking after Indonesia (49) -- and lagging behind Korea (28), Malaysia (29), China (33), and Thailand (38) in terms of "overall competitiveness". In arriving at the overall rankings, the IMD survey considered over 280 criteria grouped into four major categories: economic performance, government efficiency, business efficiency, and infrastructure. The Philippines ranked second lowest after Indonesia in terms of economic efficiency and infrastructure. It bettered Thailand and Indonesia in terms of both business and government efficiency, but lagged behind Malaysia, China, and Korea in these categories.

The IMD rankings pose important challenges for a country which has prided itself as being the least affected by the Asian crisis. The results suggest that, looking forward, much remains to be done (in terms of improving infrastructure investments, productivity, and public sector finances, among others) for the Philippines to sustain a high growth path and to compete effectively in an increasingly competitive and globalizing world economy.

 COMPETITIVENESS RANKINGS: REGIONAL COMPARISON

	2000 ----	2001 ----
OVERALL COMPETITIVENESS RANKING -----		
Philippines	37	40
Thailand	35	38
Malaysia	27	29
Korea	28	28
Indonesia	44	49
China	30	33

BROAD CRITERIA

A) Economic Performance		
Philippines	32	40
Thailand	15	15
Malaysia	10	13
Korea	13	19
Indonesia	39	46
China	5	7
B) Business Efficiency		
Philippines	39	41
Thailand	42	44
Malaysia	31	36
Korea	27	31
Indonesia	45	48
China	37	40
C) Government Efficiency		

Philippines	34	37
Thailand	30	39
Malaysia	24	26
Korea	33	31
Indonesia	41	45
China	32	35

D) Infrastructure

Philippines	41	41
Thailand	37	40
Malaysia	32	38
Korea	28	34
Indonesia	47	49
China	34	39

Source: AIM-WSycip Policy Center

FATF LISTING CREATES A STIR

The Paris-based Financial Action Task Force's (FATF) suggestion for member countries/territories to explore stronger countermeasures for the Philippines (and two other countries) by the end of September 2001 in the absence of legislative reforms to combat money laundering has created quite a stir. The news was carried on the front page of major business dailies this week. Senior BSP officials used the opportunity to hammer on the urgency of legislative remedies to criminalize money laundering and relax stringent bank secrecy laws. They emphasized that administrative measures to address the issue were fast running out and had proven inadequate for the FATF. They also warned that the possibility of stricter surveillance and reporting requirements by FATF member countries would hamper the smooth flow of financial transfers even for legitimate transactions and ultimately make it expensive and restrictive for foreign financial institutions to transact with the Philippines.

A number of legislators have jumped on the bandwagon, vowing to address the issue when the newly elected Twelfth Congress reconvenes in late July. President Macapagal-Arroyo has committed to certify anti-money laundering legislation as a priority measure in the legislative agenda. BSP officials told the Embassy that

a draft anti-money laundering bill is currently undergoing discussion/consultation. The BSP also will continue to bat for amendments in its charter which will allow examiners to look into bank deposits/accounts if there was reasonable ground to suspect crime, fraud, or serious irregularities. A number of government officials said that a strong anti-money laundering law also would benefit the government's drive against criminal activities.

It remains to be seen whether -- and how quickly -- the threat of stronger FATF countermeasures will galvanize action, especially towards relaxing strict bank secrecy laws. BSP officials have long emphasized that there can be no effective anti-money laundering system in an overly restrictive bank secrecy regime. Previous attempts to relax these laws had been met with stiff opposition, partly on concerns of harassment by government agencies (such as tax officials) and security issues (i.e., possible targeting by criminal elements).

APRIL 2001 MANUFACTURING UPDATE

The National Statistics Office's (NSO) latest Monthly Integrated Survey of Selected Industries (MISSI) showed a 12.7% year-on-year expansion in aggregate manufacturing volume during April 2001. That performance marked a second consecutive month of double-digit year-on-year growth (based on revised estimates for the previous months) and also marked the highest growth rate thus far since the start of the year. Sales volume expanded by a relatively more modest 6.2%.

Reactions to April's 12.7% year-on-year production growth were generally muted -- attributed mainly to low inventories rather than to improved business prospects. While overall production output improved, there were, however, more losers (10) than gainers (6) among the 16 manufacturing sub-sectors. It is also worth noting that April 2001's overall production volume came off a relatively low 2000 base. Sales growth has lagged production growth over the past several months and has increased at a more moderate pace thus far than comparable year-ago growth rates, indicating weaker

overall demand. Statistics also suggest more excess capacity. The manufacturing sector's average capacity utilization rate declined from 79.3% (April 2000) to 75.5% (April 2001). A smaller (56.6%) share of establishments operated at more than 70% capacity than in the previous year (60.5%), while the share of firms operating below 50% capacity increased from 11.7% (April 2000) to 17.6% (April 2001).

MONTHLY INTEGRATED SURVEY OF SELECTED INDUSTRIES

	Year-on-Year % Change Production Volume r/	Net Sales Volume
January 2000	12.3	10.1
February	7.7	10.5
March	2.7	10.5
April	(1.4)	8.3
May	13.7	21.0
June	14.5	8.0
July	20.4	5.7
August	10.1	13.2
September	16.8	2.9
October	19.0	3.7
November	40.7	15.8
December	14.0	7.7
January 2001	3.1	1.0
February	6.6	6.9
March	10.4	3.9
April	12.7	6.2

r/ revised estimates starting April 2000

Source: National Statistics Office